



Joint Committee on
Public Employee
Retirement



June 2003

BENEFIT UPDATE

There were many pension related changes which passed on both the state and federal levels recently. In an effort to keep the local public employee retirement systems (PERS) informed, the Joint Committee on Public Employee Retirement (JCPER) is providing this *Benefit Update*.

END OF SESSION REVIEW

At the conclusion of the 2003 Legislative Session of the Missouri General Assembly, 11 pension related bills were Truly Agreed To and Finally Passed. Upon signature of Governor Holden, these bills will be enacted into law. In total, 10 pension systems will be affected by the passage of these bills. The bills passed were:

◇ HCS for HB 131 ◇

Local Government Employees' Retirement System

- ✓ Requires lawsuits filed against LAGERS to be filed in Cole County
- ✓ Repeals disability retirement allowance offset
- ✓ Extends benefits for beneficiaries ordered to military duty

◇ SCS for HCS for HB 152 ◇

Kansas City Police Retirement System

- ✓ Provisions to provide Internal Revenue Code (IRC) conformance
- ✓ Clarifies leave for Board functions and amends Board structure.
- ✓ Provides for board of trustees indemnification through liability insurance and the retirement system fund and provides protection of benefits accrued by any changes in the actuarial assumption
- ✓ Provides for a partial lump sum benefit option of members service 1-3 years beyond 25 years of service. The lifetime benefit is actuarially reduced accordingly.
- ✓ Requires actuarial funding of any city authorized early retirement incentive.
- ✓ Provides a \$1,000 funeral benefit.

St. Louis Police Retirement System

- ✓ Prohibits DROP benefits for those on disability retirement.

Public School Retirement System/Non-Teacher Employee Retirement System

- ✓ Provides that the State Board of Education shall adopt rules to allow part-time teachers working 17 to 20 hours per week to choose system membership and receive credit on a pro-rata basis.
- ✓ Current members with previous service may purchase credit under either system.
- ✓ Allows contribution rate to increase by no more than 1/2 percent per year for PSRS participants and no more than 1/4 percent for NTRS participants.

The Joint Committee on Public Employee Retirement monitored 63 pension related bills, 13 requiring actuarial cost statements, which were properly filed.

✓Provides that no legislation shall be enacted after July 1, 2003 which increases benefits to plan participants until the contribution rate is equal to or less than the contribution rate in effect on 07/01/03.

◇ **SCS for HCS for HB 221** ◇

County Employees' Retirement Fund

✓Effective September 1, 2003, county recorders of deeds shall collect an additional \$1 on all documents or instruments recorded to be contributed to CERF.

◇ **SCS for HCS for HB 346** ◇

Public School Retirement System / Non-Teacher Employee Retirement System

- ✓Provides for a ½ percent (PSRS) and ¼ percent (NTRS) contribution rate increase annually.
- ✓Provides that no benefit enhancements may be enacted until matching contribution rate equals 10.5% (PSRS) & 5% (NTRS) respectively.
- ✓Provides for a uniform calculation when purchasing service.
- ✓Extends the 25 & Out provision to July 1, 2008.
- ✓Provides for a partial lump sum option for members who have either 33 years of creditable service or whose age and service total 86 or more. Members may choose a lump-sum of either 1, 2 or 3 times the annual retirement allowance. Lifetime benefit is actuarially reduced accordingly, providing cost neutrality.
- ✓Provides that the State Board of Education shall adopt rules to allow part-time teachers working 17 to 20 hours per week to choose system membership and receive credit on a pro-rata basis.
- ✓Provides that medical insurance must be elected within 1 year of leaving employment with a school district.
- ✓Allows for employment after retirement up to 2 years without losing benefits. The number of teachers/support employees rehired shall not exceed 10% of the total teachers/support employees of the district or a maximum of 5 teachers/support employees. A shortage must be declared with the hiring district. The school district must pay the employer contribution, eliminating the fiscal impact.

Kansas City Public School Retirement System

✓Allows retired teachers to return to work for 2 years without losing retirement benefits. The school district must pay the employer contribution and the returning teacher must pay the employee contribution, eliminating the fiscal impact. The number of rehired teachers shall not exceed 15 teachers. Any additional actuarial cost will be paid by the school district.

◇ **HCS for HB 348 & 347** ◇

Local Government Employees Retirement System

- ✓Provides a partial lump sum option for member eligible for normal retirement at age 60 in the amount equal to 24 months of the member's monthly annuity. Election of this option reduces the lifetime monthly annuity by 16%.
- ✓Allows retired member to return to work in a political subdivision from which the member has not retired.

◇ **HB 553** ◇

Political Subdivisions

✓Allows political subdivisions to provide health insurance to retired officers, their dependents and dependents of deceased officers of the political subdivisions.

◇ **HS for HCS for SS for SCS for SB 5** ◇

Prosecuting Attorneys & Circuit Attorneys Retirement System

✓Modifies funding mechanism for PACARS from county contributions to a combination of a reduced county contribution and a \$4 fee on all criminal court cases.

◇ HCS for SCS for SB 212 & 220 ◇

Kansas City Police Retirement System

✓Provisions are identical to HB 152 & 180 with the exception of the teacher provisions

◇ CCS for HCS for SS #2 for SCS for SB 248, et al ◇

St. Louis Police

✓Increases vacation accrual from 5 to 6 weeks for members with 30 or more years of service and are eligible to participate in DROP.

St. Louis Police Retirement System

✓Prohibits DROP benefits for those on disability retirement.

Kansas City Police Retirement System

✓Clarifies leave for Board functions

✓Requires actuarial funding of any city authorized early retirement incentive.

✓Provides a \$1,000 funeral benefit.

Missouri State Employees' Retirement System

✓Reduces the eligibility age for "80 & Out" from 50 to 48 years of age.

✓Allows election of system to receive creditable service for those who would otherwise accrue service both as member of the General Assembly and as a state employee or state officer.

Highway Employees and Highway Patrol Retirement System

✓Allows uniformed members of the Hwy Patrol to purchase prior service of public employment.

✓Requires the HEHPRS Board to contract with an outside provider for disability coverage. The denial, appeal process and liability for such are transferred to the outside provider.

✓Division of Hwy Safety personnel may elect participation in MOSERS or HEHPRS within 90 days of July 1, 2003. Allows for the appropriate transfer to the HEHPRS is made for the liability.

Missouri Consolidated Health Care Plan

✓Provides a medical incentive of 5 years of health care at the active employee rate for those who are eligible to retire between February 1, 2002 and January 1, 2004. Members must retire by September 1, 2003.

Department of Transportation, Conservation, Highway Patrol, state colleges and universities may elect to provide the same medical incentive.

Replacement of positions vacated due to this incentive is limited to 25% with the exception of critical or seasonal positions or positions entirely federally funded. These exceptions will be determined by the office of administration. State colleges and universities are exempt from the 25% restriction.

MOSERS, HEHPRS & MCHCP shall make a report by 04/01/04 on the workforce, payroll and fiscal effects of this incentive. Office of Administration shall make a report to the Governor by 04/01/04 as the budgetary effects of this incentive. In addition, monthly tracking shall be provided.

Public School Retirement System / Non-Teacher Employee Retirement System

✓Provides that the State Board of Education shall adopt rules to allow part-time teachers working 17 to 20 hours per week to choose system membership and receive credit on a pro-rata basis.

◇ SB 317 ◇

Missouri Consolidated Health Care Plan

✓Establishes a deadline of 12/01/03 for feasibility study in considering inclusion of school district retirees.

◇ SB 456 ◇

St. Louis Firemens' Retirement System

✓ Allows Board to develop a self-directed component of the deferred retirement option plan.

◇ SB 552 ◇

✓ Includes governmental plans in exemption from attachment as it relates to qualified domestic relations orders.

"Great corporations exist only because they are created and safeguarded by our institutions; and it is therefore our right and duty to see that they work in harmony with those institutions."

-Teddy Roosevelt

FEDERAL LEGISLATIVE HIGHLIGHTS

In 2001, Congress enacted an extensive tax package which included provisions of the Portman/Cardin *Comprehensive Retirement Security and Pension Reform Act*. These pension provisions included catch-up contributions for older workers, increased 401(k) and IRA savings limits, enhanced pension portability through reduced vesting and removal of rollover barriers and simplified pension regulation. On April 11, 2003, Portman/Cardin introduced the *Pension Preservation and Savings Expansion Act of 2003 (HR 1776)*. This package builds on the reforms passed in 2001 by providing the following:

- Securing 2001's Retirement Savings Opportunities
 - Making Retirement Savings Opportunities Permanent (currently scheduled to sunset in 2010)
 - Accelerating Savings Limits
 - Expanding and Making Permanent the Saver's Credit
- Improving Pension Fairness and Aiding Savers with Special Needs
 - Reducing Vesting Schedules
 - Ensuring Fair Pension Divisions at Divorce
 - Allowing IRAs for Disabled Americans
 - Preventing Savings Spend-Down for SSI Eligibility
- Expanding IRAs
 - Accelerating Eligibility for Deductible IRA
 - Eliminating the IRA Marriage Penalties
 - Correcting IRA Distribution Mistakes
- Revitalizing Defined Benefit Plans
 - Replacing an Obsolete Pension Interest Rate
 - Pension Financing Reforms
 - Simplifying Defined Benefit Plan Administration
- Preserving Retirement Assets
 - Reforming Required Distribution Rules
 - Incentives for Lifetime Payments
 - Combating Pension Leakage
 - Reuniting Lost Participants with Retirement Benefits
- Reforming Company Stock and Executive Compensation Practices
 - Providing New Diversification Rights to Employees
 - Expanding Investment Education, Retirement Planning and Legal Advice

Preventing Executive from Draining Assets from Failing Companies

→Expanding Small Business Pension Coverage

Expanding and Improving SIMPLE Plans

Expanding and Improving SEP Plans

Small Retirement Plan Payroll Tax Equity

→Financing Retiree Health

Allowing Use of Pre-Tax Pension Payments for Retiree Medical Premiums

Allowing 401(k) Sponsors to Pre-Fund Retiree Medical

→Enhancing Pension Portability

Improving Portability for State and Local Government Employees

Rollovers to Spouses, Non-Spouse Beneficiaries, and Flexible Spending Accounts

Improving Rollover Rules

On February 12, 2003, in an effort to curtail "fraud and abuse in the Social Security System", Representative E. Clay Shaw, Jr. introduced the ***Social Security Protection Act of 2003 (HR 743)***. Of the many provisions included in this act which deter abuse of the system, one particular provision has been of interest with the non-social security covered plans in Missouri. This provision affects the Government Pension Offset (GPO) and the loophole associated with the GPO. Currently, the GPO is designed to prevent workers from receiving a full spousal benefit on top of a pension earned from non-social security covered employment. However, the current law provides an exemption (loophole) from the GPO if an individual's last day of employment is in a position that is covered by Social Security.

The Government Accounting Office (GAO) has estimated that the last-day exemption could cost the Social Security Trust Fund nearly *\$450 million*. Under the ***Social Security Protection Act of 2003***, the "last-day" exemption would be lengthened to 5 years under a Social Security covered position. The Act has passed the House and is currently waiting a hearing in the Senate.

JCPER NEWS

The Joint Committee on Public Employee Retirement (JCPER) staff is currently processing the annual surveys returned by the public employee retirement systems (PERS). We appreciate the cooperation and prompt response.

For more information regarding pension legislation, information regarding our annual report or useful links to other pension related sites, please drop by our website at www.jcper.org.